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Product Brief

The Pet Food Market in the Dominican Republic 2007

Approved by:

Jamie Rothschild, Agricultural Attaché
U.S. Embassy

Prepared by:

Wagner A. Mendez

Report Highlights:

The AgOffice estimates the current market for pet food is around US\$4 million with the U.S. market share about 40 percent. Over the last few years, despite the preference for premium brands, the U.S. has lost a significant share to Central America. The restriction on U.S. pet food containing ruminants has also led to lower exports. According to the local trade, if conditions were ideal, the value of the market would double. Even with DR-CAFTA, competition will continue to be strong as Central American pet food exports will have a zero duty compared to the United States' at 20%.

Includes PSD Changes: No
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THE PET FOOD MARKET IN THE DOMINICAN REPUBLIC

I. MARKET OVERVIEW

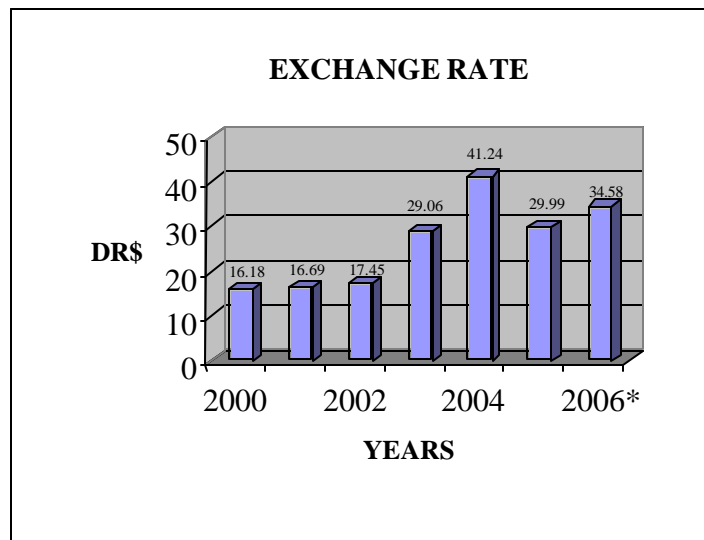
1.1. Current Economic Situation

The economic situation in the Dominican Republic is very stable, and it has a promising outlook. The Fernandez administration, which took power in August 2004, launched an economic adjustment and stabilization program aimed at restoring macroeconomic stability, a program that was renewed in late January 2005 with the signing of a standby agreement with the International Monetary Fund (IMF). This program has imposed stringent adjustments, especially in public finance and the banking sector, the main sources of the imbalances that undermined stability and encouraged the outflow of capital in recent years.

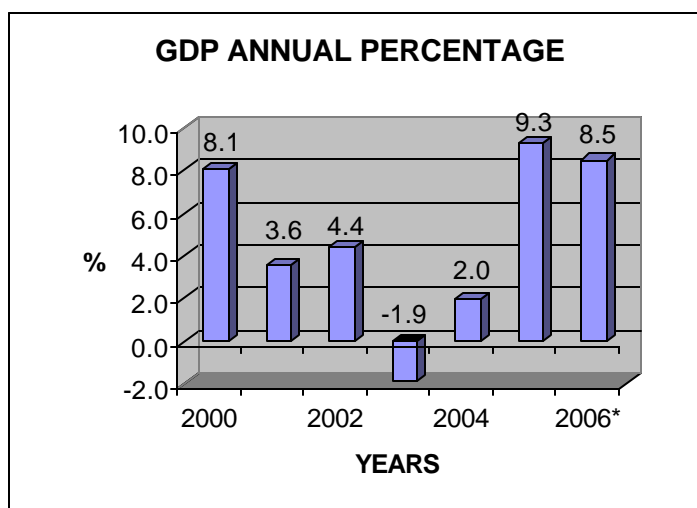
According to the Economist Intelligence Unit Country Report 2006, the government's main challenges for years 2007 and 2008 will be: to consolidate the stabilization process, to enhance fiscal management, to strengthen the financial system, and to address a crisis in the electricity sector.

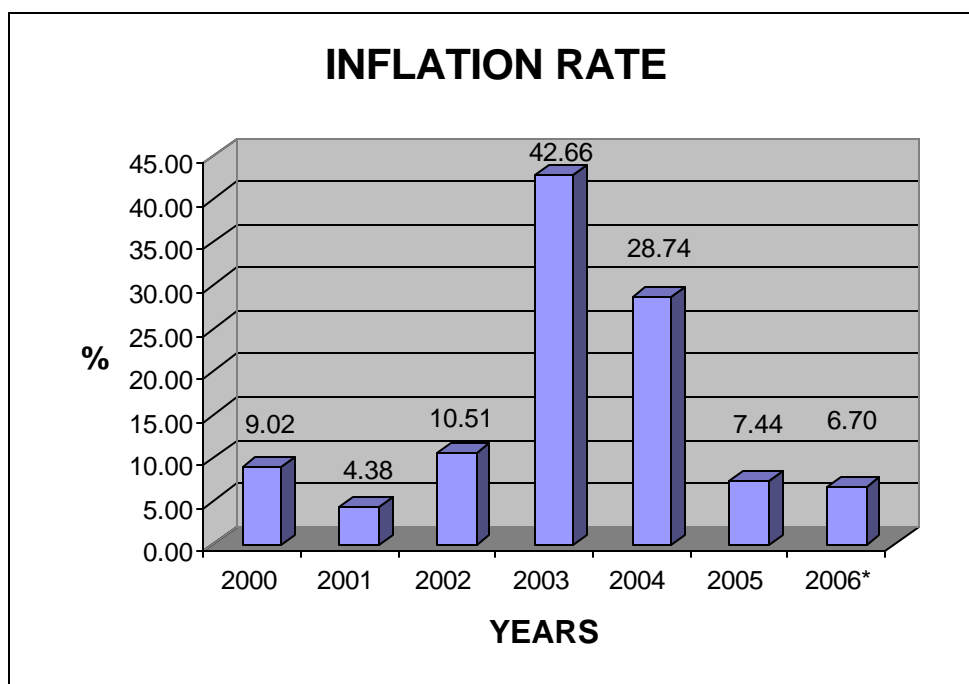
The DR-CAFTA is expected to come into force early this year. Policy will continue to be guided by the 28-month stand-by arrangement with the IMF that expires in July 2007, but experts expect it to continue for another year.

Currently, the exchange rate of the Dominican peso is quite stable ranging between DR\$31.00 and DR\$34.00 to US\$1.00. The forecast is that the Gross Domestic Product (GDP) will grow by 8.5% by the end of 2006 and by an average of 4.5% for 2007 and 2008. Inflation is returning to single digit levels. At the end of 2006, inflation is expected to be 6.7. For 2007 and 2008, it is expected to be 6.5% and 6.2%, respectively.



Source: Central Bank of the Dominican Republic and IMF Estimates*





Source: Central Bank of the Dominican Republic and The Economist Intelligence Unit

* The Economist Intelligence Unit's Estimates April

1.2. The Pet Food Market Overview

The Dominican Republic has a great potential for pet food imported from the United States. Dominican importers prefer U.S. brands. Importers and retail buyers are willing to pay a slightly higher price for higher quality products. However, some market and policy conditions are hindering imports from the United States and benefiting imports from other competing countries, such as Central America.

The market for pet food in the Dominican Republic started to develop about ten years ago. Importers saw the market potential with the increase of pets in the country. The increasing demand motivated business people to try to find suppliers in the United States. U.S. brands controlled the market at that time when almost 100% of the pet food in the market was imported from the United States.

The following table presents some of the advantages and challenges of U.S. pet food in the Dominican market.

ADVANTAGES	CHALLENGES
<ul style="list-style-type: none"> • Importers and final buyers prefer U.S. brands because of the high quality image. • It is easier to consolidate shipments coming from the United States. • Competing countries in Central America do not supply cat food. 	<ul style="list-style-type: none"> • Increasing competition, mainly from Central American countries. • The free trade agreement between the Dominican Republic and Central America set the tariff rate for pet food at 0%. However, the DR-CAFTA left the rate at 20% to be lowered at 2% per year. This means that for the next 10 years, following the implementation of the agreement, the rate for U.S. pet food will be higher than the rate for Central American's. • U.S. brands are more expensive than the similar ones from Central America. • Freight is more expensive from the United States than from Central America. • There are more requirements about the documentation needed from the United States than from Central America.

II. MARKET SECTOR OPPORTUNITIES AND THREATS

A few importers control pet food imports in the Dominican Republic. Almost all of them are members of the Pet Food Importer Association. The main role of the association is to help its members to work together to resolve any policy issue that may affect imports. For example, in the past, they have worked together to try to get a lower tariff rate, and the rate was lowered from 30% to 20%.

In addition to supplying retailers, importers also sell to end consumers. Supermarkets are the major distribution channel for low-price brands. Veterinarians and specialty pet food stores distribute premium brands.

In addition to buying from other importers/distributors, some supermarkets also import low-price brands directly. Those supermarkets have a separate business that handles imports of pet food and other products.

As supermarkets are the major distribution channel for pet food in the Dominican Republic, following is a profile of the major supermarket chains in the Dominican Republic.

Supermercados Nacional

Until recently, Supermercados Nacional was the largest supermarket chain in the Dominican Republic. It has ten stores located in the cities of Santo Domingo, Santiago and La Romana. This chain is the pioneer of the Dominican supermarket business. Centro Cuesta Nacional (CCN) manages the chain, which has its own procurement and distribution center to source products and supply the stores.

Another concept established by Centro Cuesta Nacional is the Jumbo hypermarket. So far, it has opened two stores, one in the eastern part of Santo Domingo and the other one in La Romana. The Supermercados Nacional stores are modern and spacious.

Supermercados Pola (Grupo Ramos)

Recently, Supermercados Pola became the largest supermarket chain in the country after buying most of the stores of another large supermarket chain, Hipermercados Olé. The Ramos Business Group (Grupo Ramos) owns and manages this chain. Supermercados Pola has eight outlets located in Santo Domingo and Santiago. Importadora Oceanica is the company within Grupo Ramos that handles imports and distribution of consumer products. This company works almost the same way as Centro Cuesta Nacional and also has exclusive representation of different brands. It sells its products through Supermercados Pola and supplies other retailers, as well. This chain is one of the major pet food importers in the Dominican Republic, and it is also member of the pet food importers association.

Supermercados La Cadena

This supermarket chain was established in 1999 after some of the members of the Ramos family, owners of Supermercados Pola, decided to start their own supermarket chain. The supermarket started with only one store and it currently has six outlets in Santo Domingo. The supermarkets are owned and managed by Mercatodo, S.A.

Supermercados Bravo

This supermarket was established in 1998. Its owner, Rafael Monestina, was one of the founders and owners of Supermercados Pola. Currently, Supermercados Bravo has four stores in Santo Domingo. This supermarket, through its import business, Bemosa, is the major supermarket that imports pet food and that has one of the major pet food departments.

Supermercados Plaza Lama

The original focus of the Plaza Lama store was as a retailer of appliances, shoes, and clothing. In 1991, they added dry food products to provide additional services to the customers. The first real supermarket with full lines of grocery and frozen products was established in 1995. Another supermarket and a mini market were opened in 1999.

In 2001, Plaza Lama opened a centerpiece-shopping complex in one of the main commercial areas of Santo Domingo. The plaza included the largest supermarket of the Plaza Lama's chain and it includes a deli and a gourmet product section. Currently, the chain has four supermarkets and a mini market all located in Santo Domingo. The supermarket portion of the Plaza Lama business is currently the second largest department following appliances. It seems likely that supermarkets will evolve into the main business in the near future.

2.1. Entry Strategy

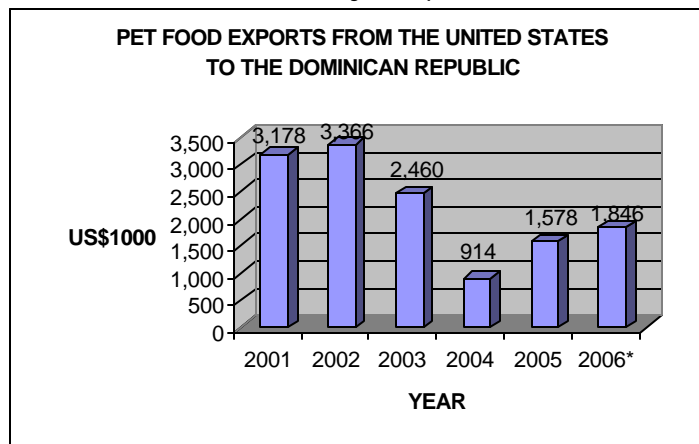
The best way to enter the Dominican market is through a local importer/distributor. These importers/distributors are familiar with the market, business practices, and related laws; and they have already established direct sales contacts. We also recommend seeking legal advice before making any formal commitment with a local importer or distributor.

2.2. Market Size, Structure, and Trends

In 2001, the U.S. market share was 98%; however, the share has decreased to about 40% due to lower priced imports from Central American. Currently, importers estimate that demand could reach about 450 MT per month (about \$700,000/month).

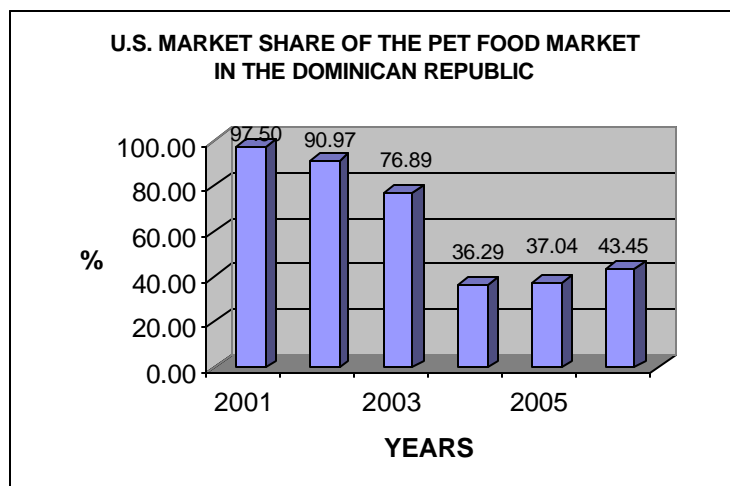
The free trade agreement between the Dominican Republic and the Central American countries set the tariff rate for pet food at 0%. The current official tariff rate for imports from the United States is 20%. Even without any restrictions to import from the United States, it is cheaper to import from Central America. These imports are mainly for economical brands. Importers estimate that there is a market for premium brands from the United States, and some pet owners are willing to buy it regardless of the price. Only the United States can provide the quality brands that those pet owners demand. Cat food continues to be imported from the United States because Central America doesn't supply it.

The financial problems that the Dominican Republic faced in 2003 disrupted the market and pet food imports decreased sharply. However, imports are back to normal levels again and the forecast is to increase. Exports from the United States decreased from \$3.4 million in 2002 to \$914,000 in 2004. However, it went up to \$1.6 million in 2005. From



Source: FAS BICO Report, 2006.

* Data from January to September



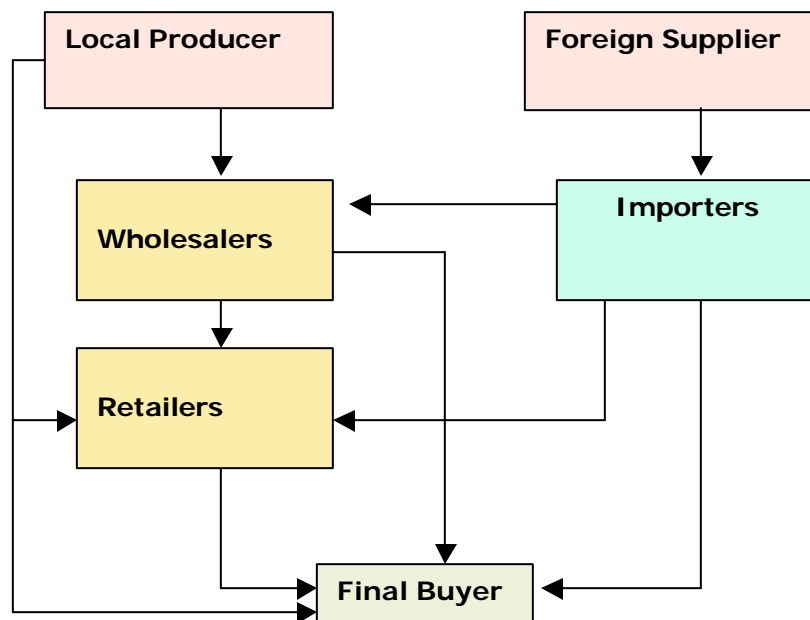
Source: Based on Dominican custom data and the FAS BICO Report, 2006.

* Data from January to September

January to September of 2006, exports of pet food from the United States increased by 145%. If the same trend continues from October to December, total exports for the year will reach \$3.9 million, which is over the value of exports in 2002, previous to the financial crisis in the Dominican Republic.

Local production of pet food in the Dominican Republic is minimal. There is only one company producing pet food, which produces only about 5% of the total demand. This company started to increase its production when imports from the United States were restricted because of the new local regulations.

MAIN DISTRIBUTION STRUCTURE FOR PET FOOD IN THE DOMINICAN REPUBLIC



2.3. Competition

Pet food from the United States face tough competition from Central American countries, mainly Costa Rica. Other competing countries are Argentina, Brazil, France, Mexico, and Guatemala. These countries compete in price, but not in quality. Importers stated that they prefer to import from the United States instead of importing from any other country. However, lower prices and local regulations are pushing importers to buy from competing countries.

III. COSTS AND PRICES

In addition to the FOB price, the other major cost factors for the final buyer in the Dominican Republic are the following:

1. Freight: Between \$2,500 and \$3,000 per container of 42,000 lbs.
2. Insurance: About 1.5% of the FOB price.
3. Tariff: 20% over the CIF value at the current exchange rate for U.S. products. This tariff is 0% for pet food from Central America.
4. Customs commission: 0.4% of the CIF value.
5. Value Added Tax (ITBIS): 16% of the CIF value.
6. Margin for the importer: Between 30%-40% for premium brands, and between 15-25% for lower price brands.
7. Margin for the retailer: 25% to 35%.

The United States has the following competitive disadvantage compared to Central America:

1. Suppliers from the United States put only a maximum of 42,000 lbs in a container, but suppliers from Central America are willing to put 48,000 lbs.
2. While the freight from the United States costs between \$2,500 and \$3,000 per container without insurance, the freight from Central America costs only \$1,500, including insurance.
3. The United States could be 50% higher than similar products from Central America.

IV. MARKET ACCESS

U.S. pet food containing ingredients from ruminants are not allowed to enter the Dominican Republic. Because of this regulation, importers purchase pet food with poultry ingredients instead of beef.

Although local importers are eager to import from the United States a major constraint they are facing is that the tariff rate for imports from the United States is still 20%, while the one for Central America was set at 0% after signing the free trade agreement between Central America and the Dominican Republic (This is not the DR-CAFTA). Because Dominican regulations do not allow U.S. pet food containing ingredients from ruminants, the country is also stricter about the documentation needed to allow imports from the United States. These factors have restricted imports from the United States, and it has created the conditions for competing countries to increase their market share. Local production, although it is still minimal, has also increased.

U.S. labeling and standards are well accepted in the Dominican Republic. Although there is a law that requires that all labels should be in Spanish, it has not been enforced.

For a more detailed description about regulations and standards, please refer to our report DR6014, which you can find at <http://www.fas.usda.gov/scripts/AttacheRep/default.asp>, and select option 3.

VI. BEST PROSPECTS

- Premium brands
- Cat food

Although there is a good potential for dog food, currently, importers prefer to import low price brands from Central American countries because they are cheaper and final buyers prefer to pay a lower price regardless of the quality.

VII. KEY CONTACTS AND FURTHER INFORMATION**FOREIGN AGRICULTURAL SERVICE**

Ave. Pedro H. Ureña #133, La Esperilla

Santo Domingo, Dominican Republic

Phone: (809) 227-0112 Ext. 275

Fax: (809) 732-9454

Contact: Jamie Rothschild, Agricultural Attaché

Email: AgSantoDomingo@usda.gov

Home page: <http://www.usemb.gov.do/fas.htm>